大同機械企業有限公司
COSMOS MACHINERY ENTERPRISES LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 118)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

RESULTS SUMMARY

	Six months ended 30 June		
	2023	2022	
	(Unaudited)	(Unaudited)	
	HK$'000	*HK$'000*	**Change**
Revenue	**1,133,707**	1,224,571	-7.4%
Gross profit	**188,085**	189,237	-0.6%
Operating profit	**10,928**	12,338	-11.4%
Profit for the period	**2,298**	1,648	+39.4%

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2023 (30 June 2022: Nil).

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Cosmos Machinery Enterprises Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2023. These interim results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue		**1,133,707**	1,224,571
Cost of sales		**(945,622)**	(1,035,334)
Gross profit		**188,085**	189,237
Other income and gains, net		**2,798**	7,384
Selling and distribution costs		**(82,450)**	(82,878)
Administrative expenses		**(97,505)**	(101,405)
Operating profit		**10,928**	12,338
Finance costs		**(7,795)**	(6,134)
Investment income		**3,776**	2,343
Share of results of associates		**2,147**	2,213
Profit before tax	*4*	**9,056**	10,760
Taxation	*5*	**(6,758)**	(9,112)
Profit for the period		**2,298**	1,648
Profit/(loss) attributable to:			
Equity shareholders of the Company		**3,569**	8,633
Non-controlling interests		**(1,271)**	(6,985)
		2,298	1,648
Earnings per share – Basic and diluted	*6*	**0.41 HK cent**	1.00 HK cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**2,298**	1,648
Other comprehensive expense, net of tax:		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
Share of other comprehensive expense of associates	**(1,507)**	(1,516)
Exchange differences arising from translation of financial statements of foreign operations	**(40,022)**	(60,575)
	(41,529)	(62,091)
Total comprehensive expense for the period	**(39,231)**	(60,443)
Total comprehensive expense attributable to:		
Equity shareholders of the Company	**(34,292)**	(48,344)
Non-controlling interests	**(4,939)**	(12,099)
Total comprehensive expense for the period	**(39,231)**	(60,443)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

	Notes	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Non-current Assets			
Property, plant and equipment		**543,051**	548,919
Right-of-use assets		**62,615**	72,171
Goodwill		**32,996**	32,996
Intangible assets		**231**	922
Interests in associates		**36,956**	39,483
Finance lease receivables		**18,642**	15,011
Deferred tax assets		**22,307**	22,998
Bank time deposit with maturity over one year		**1,085**	1,120
		717,883	733,620
Current Assets			
Inventories		**456,669**	450,811
Finance lease receivables		**80,940**	100,939
Trade and other receivables	*8*	**743,043**	769,278
Other financial assets		**138,395**	10,367
Current tax recoverable		**2,204**	642
Cash and bank balances		**459,447**	559,793
		1,880,698	1,891,830
Current Liabilities			
Trade and other payables	*9*	**709,202**	691,938
Contract liabilities		**78,410**	94,147
Bank borrowings		**247,972**	225,127
Lease liabilities		**13,477**	15,701
Current tax payable		**1,795**	4,276
		1,050,856	1,031,189
Net Current Assets		**829,842**	860,641
Total Assets less Current Liabilities		**1,547,725**	1,594,261

	30 June 2023 (Unaudited) *HK$'000*	31 December 2022 (Audited) *HK$'000*
Non-current Liabilities		
Bank borrowings	**353**	2,468
Lease liabilities	**18,110**	25,003
Deferred tax liabilities	**30,543**	28,394
	49,006	55,865
Net Assets	**1,498,719**	1,538,396
Equity		
Capital and reserves attributable to equity shareholders of the Company:		
Share capital	**609,027**	609,027
Reserves	**678,803**	713,095
	1,287,830	1,322,122
Non-controlling Interests	**210,889**	216,274
Total Equity	**1,498,719**	1,538,396

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Accounting Standards ("**HKAS**") 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

These interim financial statements have been prepared in accordance with the accounting policies which are consistent with those adopted in the Group's annual consolidated financial statements for the year ended 31 December 2022. The amendments to standards adopted by the Group in the current period are set out in Note 2 below.

The information in this interim financial report is unaudited and does not constitute statutory financial statements. The financial information relating to the financial year ended 31 December 2022 that is included in this interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with Section 436 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong, the "**Companies Ordinance**") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by Section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under Sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of Accounting Policies
- Amendments to HKAS 8, Definition of Accounting Estimates
- Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The application of the amendments to HKFRSs in the current interim period had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. SEGMENT REPORTING

The Group manages its business by a mixture of both business lines and geographical locations. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified, on a product basis, the following four reportable segments:

(i) trading of industrial consumables;

(ii) processing and manufacturing of plastic products;

(iii) manufacturing of machinery; and

(iv) processing and trading of printed circuit boards.

Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's top executive management monitors the results attributable to each reportable segment on the following basis:

Segment revenue, expenses and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue and expenses are determined before intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

The segment results for the six months ended 30 June 2023 are as follows:

	Industrial consumables *HK$'000*	Plastic products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE							
External sales	**215,893**	**264,517**	**393,703**	**252,130**	**7,464**	**–**	**1,133,707**
Inter-segment sales *(Note)*	**13,365**	**26**	**61**	**–**	**4**	**(13,456)**	**–**
Total revenue	**229,258**	**264,543**	**393,764**	**252,130**	**7,468**	**(13,456)**	**1,133,707**
Segment result	**12,193**	**13,686**	**(6,454)**	**(1,564)**	**4,340**	**–**	**22,201**
Unallocated corporate expenses							**(11,273)**
Operating profit							**10,928**
Finance costs							**(7,795)**
Investment income							**3,776**
Share of results of associates							**2,147**
Profit before tax							**9,056**

Note: Inter-segment sales are determined at prevailing market rates.

The segment results for the six months ended 30 June 2022 are as follows:

	Industrial consumables *HK$'000*	Plastic products *HK$'000*	Machinery *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE							
External sales	227,258	231,571	442,572	309,851	13,319	–	1,224,571
Inter-segment sales *(Note)*	12,371	94	2,627	–	–	(15,092)	–
Total revenue	239,629	231,665	445,199	309,851	13,319	(15,092)	1,224,571
Segment result	20,000	17,605	(6,695)	(12,309)	8,644	–	27,245
Unallocated corporate expenses							(14,907)
Operating profit							12,338
Finance costs							(6,134)
Investment income							2,343
Share of results of associates							2,213
Profit before tax							10,760

Note: Inter-segment sales are determined at prevailing market rates.

An analysis of revenue by geographical market is as follows:

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Hong Kong	**124,209**	171,577
Mainland China	**818,041**	874,268
Other Asia-Pacific countries	**146,418**	134,784
North America	**6,576**	3,043
Europe	**38,463**	40,899
	1,133,707	1,224,571

4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Profit before tax is arrived at after charging the following:		
Depreciation and amortisation on:		
Property, plant and equipment		
– Ownership interest in leasehold land and buildings held for own use	**1,931**	1,887
– Other owned assets	**26,445**	28,263
Intangible asset	**691**	691
Right-of-use assets	**7,612**	6,790
Short-term leases payment	**643**	2,307

5. TAXATION

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Hong Kong profits tax	**200**	643
Overseas taxation	**6,558**	8,469
	6,758	9,112

The provision for Hong Kong profits tax for the six months ended 30 June 2023 is calculated at 16.5% (30 June 2022: 16.5%) of the estimated assessable profits for the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

6. EARNINGS PER SHARE

The calculation of the basic earnings per ordinary share is based on the Group's profit attributable to equity shareholders of the Company and the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2023	2022
Weighted average number of ordinary shares in issue during the period	**861,930,692**	861,930,692
	HK$'000	*HK$'000*
Profit attributable to the equity shareholders of the Company	**3,569**	8,633
	HK cent	*HK cent*
Basic and diluted earnings per share	**0.41**	1.00

There were no dilutive potential ordinary shares in existence during the period.

7. DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2023 (30 June 2022: Nil).

8. TRADE AND OTHER RECEIVABLES

The Group grants an average credit period of 90 days to 120 days to customers.

An aging analysis of trade receivables, based on the invoice date and net of allowance for impairment of bad and doubtful debts, is as follows:

	30 June 2023 *HK$'000*	31 December 2022 *HK$'000*
0 to 3 months	**473,595**	434,595
4 to 6 months	**106,486**	127,088
7 to 9 months	**42,248**	54,012
Over 9 months	**40,916**	49,670
Total trade receivables	**663,245**	665,365
Other receivables	**46,924**	67,553
Prepayments	**32,859**	36,267
Amounts due from related parties	**15**	93
	743,043	769,278

9. TRADE AND OTHER PAYABLES

An aging analysis of trade payables, based on the date of invoice, is as follows:

	30 June 2023 *HK$'000*	31 December 2022 *HK$'000*
0 to 3 months	**447,251**	419,145
4 to 6 months	**107,967**	100,104
7 to 9 months	**6,987**	16,206
Over 9 months	**16,135**	15,991
Total trade payables	**578,340**	551,446
Accruals and other payables	**130,862**	140,492
	709,202	691,938

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Revenue

Revenue of the Group for the six months ended 30 June 2023 was approximately HK$1,133,707,000 (30 June 2022: approximately HK$1,224,571,000), a decrease of 7.4% over the same period last year, which was mainly due to the stagnant manufacturing demands in China and globally, weak exports for industrial goods and lack of consumer spending growth. This led to the decrease in sales in most of the business segments of the Group.

Gross profit and gross profit margin

For the six months ended 30 June 2023 and 2022, the Group's gross profit amounted to approximately HK$188,085,000 and HK$189,237,000 with gross profit margin of 16.6% and 15.5%, respectively. The gross profit margin of the Group increased when compared with the same period last year, which caused by reducing labour costs and exploring lower-cost raw materials.

Selling and distribution costs

The selling and distribution costs of the Group for the six months ended 30 June 2023 amounted to approximately HK$82,450,000 (30 June 2022: approximately HK$82,878,000), and the selling and distribution costs to revenue was approximately 7.3%, which was similar to the same period last year.

Administrative expenses

The administrative expenses of the Group for the six months ended 30 June 2023 were approximately HK$97,505,000 (30 June 2022: approximately HK$101,405,000), a decrease of 3.8% over the same period last year. This was mainly due to the implementation of effective cost measures by the Group.

Finance costs

The Group's finance costs for the six months ended 30 June 2023 amounted to approximately HK$7,795,000 (30 June 2022: approximately HK$6,134,000), an increase of 27.1% as compared to the same period last year. The Group beared higher effective interest rate due to the latest interest rate hike cycle, which led to an increase in finance costs.

BUSINESS REVIEW

Machinery Manufacturing Business

The injection molding machine ("**IMM**") manufacturing business stabilized in the first half of the year after experiencing a marked industry-wide decline during the same period last year. Overall machinery demands were weaker than anticipated following the opening up of pandemic restrictions in China in the first quarter. The ongoing difficulties for the housing market in China, weak exports for industrial goods, and lack of consumer spending growth continue to hinder manufacturing enterprises' machinery investment sentiments. Along with stagnant demands, competition among industry peers ramped up in intensity, where selling prices for most sizable orders are under pressure.

During the period, demands from key industries, such as automotive, household appliances, and infrastructure, remained relatively weak but stable. In contrast, industries such as medical supplies, packaging, and daily necessities are growing relatively favourably. Overall, our China market's order intake grew slightly compared to the same period last year. Our export sales achieved stable results amid weak global demands hampered by low global economic growth, high energy costs, and fluctuating foreign currencies.

Sales of our industry-specific customized solutions for medical supplies and packaging continue to achieve relatively better growth, especially for our Polyethylene Terephthalate (PET) preform applications machine series. The D-series full electric solution continues to gather sales momentum as sophisticated customers value our machines' precision, reliability, and superb energy saving. For product development, this business will launch a new series of high energy-saving machines, large-sized two-platen IMM with hybrid solutions, as well as full electric machines with greater clamping force this year.

In addition to the newly invested machining equipment in Dongguan and Wuxi factories in the past two years, this business will further refine and gradually expand our automated welding systems to further boost the productivity and quality of our machine chassis. After the successful commissioning of solar panels installed in our Wuxi factory last year, the same green energy solution was successfully online in our Dongguan factory recently, which provides a further secure electricity supply, significantly reduces our carbon footprints, and boosts our energy cost savings.

The Group will continue to support this business's efforts in overall cost optimization, investments in research and development, digital platforms and talent recruitment. Hiring efforts continue to focus on engineering and sales talents. Although the forecasted market outlook remains challenging, the IMM business will launch new energy-saving machine series and ramp up investments and efforts in export market development.

For the extrusion and rubber injection molding machines and hydraulic presses manufacturing business, it recorded a minor drop in sales but slightly improved profitability. It faced similar challenging economic conditions as described above and saw numerous projects delayed by customers due to uncertainty about the rebound of improved demands. However, due to our continuous efforts to solve customer pain points and achieve technical breakthroughs, this business successfully increased sales of its unique specialty machine solutions, such as rubber track belt machines, corner joint rubber injection molding machines, automotive nylon pipes extrusion lines, and telecommunication extrusion lines.

Domestic customers, especially in the automotive parts industry, delayed placing orders or delayed delivery of machines amid an uncertain short-term economic outlook. Our key export markets displayed similar delayed deliveries from customers. However, this business will strive to improve sales in the second half of the year based on a high number of quality contract discussions with customers for our unique specialty machines and a higher order on hand compared to the same period last year.

This business kept ramping up efforts to innovate in order to enhance customer value in the areas of customized automation, reliability and precision closer to high-end European industry peers, and user experience. Additional resources, including overseas marketing and frequent business trips to serve our overseas partners and customers, were deployed to grow our export business and global sales network. The management team believes that in addition to customers being satisfied with our machines' superb technical performance, our dedication to fast response in terms of technical discussions and after-sales support can further highlight our edge compared to industry peers.

The Group supports this business's continuous investments in research and development, internal management excellence improvements, as well as talent development. Several management structure optimization changes should further improve our sales and engineering teams' capability to refine our niche market applications. In addition, branding and marketing campaigns are ongoing, with an emphasis on digital platforms to increase exposure in domestic and overseas markets.

Plastic Products Processing and Manufacturing Business

The plastic processing plant for food packaging in Zhuhai achieved a slight growth in the first half of the year compared to the same period last year. Sales volume from our key customers in the China dairy industry recorded a slight boost after the lifting of pandemic restrictions, as well as new projects continue to drive up volume. Another key customer in the health supplement industry ramped up marketing efforts as consumers raised awareness and demand for health supplement products, thus boosting our sales in this market segment. Our management team will further develop and expand into this industry to capture potential growth opportunities.

As this business focuses on packaging solutions for Chinese infant and baby formula dairy products, the trend and demographics are potentially challenging. The number of new births dropped below the number of deaths in China for the first time in 2022. This alarming pivot point of negative population growth alongside aging demographics will probably deteriorate further as the economic growth slowdown in China will likely continue. This business will closely cooperate with key customers to diversify into other market segments, such as dairy and health supplement products for adults and the elderly.

Export sales decreased mildly due to several factors. High inflation, fluctuating foreign currencies, and high sugar prices affected our export customers' overall demand for our confectionary packaging products. At the same time, customers are still digesting their high inventory levels.

Our engineering, design and marketing teams continued their efforts to provide designs and development services to our customers, as well as deploying more marketing resources in traditional channels such as exhibitions and digital channels such as digital media and social media, in order to increase brand exposure. The production team will keep pace to upgrade the automation and visual quality assurance equipment in order to further improve quality and production efficiency.

Expansion plans for production facilities in Northern China are still in the planning and preparation stage.

The plastic components processing plant for household appliances in Hefei persevered to manage steady results amid a still challenging market for household appliances. The housing market in China has yet to substantially recover after the lifting of pandemic restrictions. Domestic demands for household appliances remain relatively weak. However, our sales in the first quarter improved as customers replenished inventory levels in anticipation of sales rebound as pandemic restrictions were lifted. This trend did not sustain and sales volumes for the rest of the year are forecasted to remain weak.

In view of the challenging market environment, our management team worked tirelessly to obtain new projects, especially those are export specifications and higher-end models. The team achieved further quality and production efficiency improvements as customers enforce strict quality assurance measures and penalty on defective items. We believe our continuous improvements for quality can further differentiate us from other low-cost industry peers.

While sales volume for the household appliance industry is forecast to remain weak, this business will commit to competing for new orders while managing a healthy cash flow to remain competitive. Further improvements on customized digital production systems are ongoing in order to better serve customers’ high-mix low-volume orders, shorten delivery lead time, decrease direct labour costs and improve product quality.

The blow molded mannequins production plant in Dongguan achieved steady results despite weak retail sales performance in our key European markets. This was made possible by European regulations driving for more eco-friendly display items that benefitted our blow molded recyclable mannequins without the surface spray painting process. In addition, our key customers are highly satisfied with our top-class quality, fast response time, and reasonable price.

This business invested heavily in development efforts for projects related to a world-class sporting goods brand. A high number of new molds and samples were developed to our customer’s satisfaction. These new projects will help sustain business growth in the coming years as well as diversify our key customer base.

Efforts are ongoing to leverage our edge in production management and mold improvements with the aim of lowering upfront mold costs and minimum order quantity. This business is strengthening its ability to attract more world-class retail brands which value eco-friendly and high-end display solutions. Our production team will further invest in digital production management systems to shorten production lead time and overall response time, and achieve lower inventory levels.

Printed Circuit Boards ("PCB") Processing and Trading Business

The PCB processing plant in Shenzhen continued to operate in adverse conditions and recorded an on-going operating loss. Demands from our European automotive customers remain weak, and a significant rebound is not visible at this moment. Stagnant demands for automotive in the European markets, attributed to high inflation, high energy costs and low consumer confidence, are affecting this business. In addition, European customers continued their efforts to shift away from sourcing in China to other countries such as Thailand and Vietnam. Orders from our customers in the Japanese gaming industry reduced to negligible level as sales of gaming consoles continued to drop and shifted PCB orders to lower cost suppliers. Orders from our customers in the Japanese automotive and electronics industries were slightly increased compared to the same period last year.

The management team is doing the utmost to lower operating costs by reducing the frontline workforce and rental spaces of dormitories. Alternatives for lower-cost raw materials are being explored. Production processes are further scrutinized in search for more optimal efficiencies and waste reduction. New business development activities are ongoing, however, short-term gains are not likely as the new customer development process is relatively long. The Group will work closely with our operating partners to minimize short and long-term losses.

The PCB trading business recorded a comparable sales turnover in the first half of the year compared to last year. Orders from major customers, mainly in the Japanese office automation, automotive and electronics industries, remain stable despite challenging growth prospects for such industries. This business managed to develop new projects with Japanese automotive parts customers. Our sales team based in Japan continued to develop new business opportunities with corporations in Japan, which increased its "re-shoring" efforts due to the prolonged depreciation of the Japanese Yen and reduced sourcing from China.

Amid a challenging operating environment for our customers and competition among industry peers, there was pricing pressure from certain customers. However, valuable long-term relationships with selected customers should benefit this business and we focus on longer-term prospects for business growth.

Industrial Consumables Trading Business

The industrial consumables trading business recorded steady results in terms of overall sales, however, profitability was slightly reduced compared to the same period last year. Customers across numerous industry segments displayed prolonged weak demand levels, especially those anchored in the machinery, electronics and appliances, packaging, elevators, and infrastructure industries. Main causes of low demands and the lack of visible rebound from the previous year's decline are lower-than-expected economic growth in China in the first half of the year, a stagnant housing market, and a continued drop in exports for a wide range of industries. In addition, a portion of these customer segments was still digesting their high inventory levels. Sales of our imported components, such as servo systems and steel material products, were impacted as customers continued to source domestically for alternatives for cost reasons and to shorten delivery lead times.

On the other hand, bright spots exist in our diverse customer groups. Our sales to customers from vibrant industries benefitting from policy support and strong end-user demands, such as lithium batteries, renewable energy, electric vehicles, robotics and medical devices, continued to grow. These orders for motion and servo drive components and steel material products offset the decline in other customer groups. Customers in the automotive industry showed signs of a rebound from previously depressed demand levels, however, petroleum-based automotive is still forecasted to be outpaced by electric vehicles in the coming years.

Sales of motion and servo drive components continued its growth trajectory. Besides, sales growth in the above-mentioned industries, support from long-term suppliers, new partnerships and close cooperation with suppliers achieved a breakthrough in provision of customized solutions to our robotics customers. For steel material products and fastener products, management teams will further develop domestic qualified suppliers and explore export businesses in the South East Asia markets.

Talent recruitment, especially technical engineers and programmers, remained the focus of this business. The Group believes the continued drive to upgrade our technical capabilities would enable us to provide valuable comprehensive solutions and technical support to create value for our customers.

Subsequent Event

There is no material event since the end of the reporting period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2023, the Group's total outstanding bank borrowings amounted to approximately HK$248,325,000 (31 December 2022: approximately HK$227,595,000), which comprised mainly bank loans and trade finance facilities. The bank borrowings repayable within one year and in the second to the fifth year amounted to approximately HK$247,972,000 and HK$353,000, respectively (31 December 2022: approximately HK$225,127,000 and HK$2,468,000, respectively).

After including lease liabilities of approximately HK$31,587,000 (31 December 2022: approximately HK$40,704,000) and deducting cash and bank balances and bank time deposit of approximately HK$460,532,000 (31 December 2022: approximately HK$560,913,000), the Group's net cash amounted to approximately HK$180,620,000 (31 December 2022: approximately HK$292,614,000). Total equity attributable to equity shareholders of the Company as at 30 June 2023 was approximately HK$1,287,830,000 (31 December 2022: approximately HK$1,322,122,000).

The gearing ratio of the Group is measured as total of bank indebtedness and lease liabilities less cash and bank balances and bank time deposit divided by net assets. The Group had a net cash position as at 30 June 2023 (31 December 2022: same). As a result, no gearing ratio was presented.

The Group's financial statements are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollars, Renminbi, United States dollars and Japanese Yen. As the Hong Kong dollar remained pegged to the United States dollar, there was no material exchange risk in this respect. The Group continues to monitor its foreign exchange exposure in Japanese Yen and Renminbi, and enters into forward contracts when necessary. The Group's long-term bank loans were denominated mainly in Hong Kong dollars and carried interest at floating rates. Credit risk was hedged mainly through credit insurance.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisitions and disposals by the Group during the six months ended 30 June 2023.

CAPITAL STRUCTURE

There was no change in the total number of issued shares of the Company for the six months ended 30 June 2023. The total number of issued shares of the Company remained at 861,930,692 shares at 30 June 2023.

EMPLOYEES, REMUNERATION POLICY AND TRAINING SCHEME

As at 30 June 2023, the Group had a total of 2,410 employees (30 June 2022: 2,458 employees) located in Hong Kong and Mainland China, the ratio of women to men in the workforce was 34:66. Notwithstanding the foregoing, gender diversity for industrial business segment in which the Group operates may be less relevant due to the nature of work.

The Group has formulated the remuneration policy of employees. The remuneration of employees is based on their qualifications, competence and performance as well as market trends. Employees' benefits include retirement benefits, medical insurance coverage, and various leave entitlements. The overall remuneration packages, which include an element of discretionary bonuses, are reviewed annually.

The emoluments of the Directors are determined by the Board based on the recommendation of the remuneration committee of the Company (the "**Remuneration Committee**") with reference to individual performance, qualifications and experience of the Directors, the duties and responsibilities of the Directors in the Company, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

The Group had provided training programmes or courses for employees of the Group, including employees at all levels from different departments in Mainland China and Hong Kong, and also for Directors, respectively, so as to further enhance their technical skills, professional skills and knowledge in production, operation and management.

OUTLOOK AND PROSPECTS

Even though China has lifted its pandemic related restrictions since the beginning of this year, overall operating conditions did not substantially improve as the Group had previously anticipated. Although a normalized flow of people did in fact stimulate retail consumption to an extent, consumers held back on high-value items, such as housing, automotive, household appliances and luxury goods. Demands and investment sentiments in the manufacturing sector continue to remain weak, as the domestic economic outlook is worse than anticipated, and export related orders further decline across numerous industries. Although border control restrictions have been lifted, it seems to take time to re-attract foreign investments and capital. Government stimulus policies were lacking until recently, which focused on supporting real estate borrowings, reinforcing digital platforms integration, technological advancement, and supporting small- and medium-sized private companies. There are no signs of broad demand-driven stimulus policies to substantially boost domestic spending. All in all, the Group now shifts to anticipate continual weakness in most of the industrial sectors for the rest of the year, and competition amongst industry peers will intensify.

From a global perspective, economic recovery in Western developed countries ranges from anaemic to insignificant. High inflation growth rates show signs of abating, however, high interest rates and energy costs continue to suppress consumer spending and capital investments. The lack of growth is also apparent in emerging and developing countries for similar reasons. Geopolitical confrontations, especially between the US and China, are likely to continue and worsen for the foreseeable future, which further divide the world. In addition, the Russia-Ukraine war is escalating with no end in sight. These factors are not conducive to re-igniting industrial demand and consumption amid challenging economic recovery scenarios domestically and globally.

Nevertheless, bright spots and opportunities exist within China and overseas. The machinery manufacturing business and industrial consumables trading business will continue to strive to maintain growth by serving customers in dynamic industries, such as renewable energy, lithium battery, electric vehicles, medical applications, automation equipment and eco-friendly materials. New machine series and customizations that focus on enabling customers to reduce energy consumption have been launched, and our machinery manufacturing business will strive to capture opportunities domestically and globally. The plastic products processing and manufacturing business will strive to maintain its order volume despite low demand growth from our customers and fierce competition with industry peers. The Group will also be proactive in implementing the best course of action to reduce losses in our PCB processing business.

While the Group is less than optimistic about the operating conditions in our key industries, we will continue to invest in research and development, digital platforms and systems, and talent development. Operating cash flow, foreign exchange risks and finance costs will be closely managed as our businesses navigate a challenging and highly competitive market for the rest of the year.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2023 (30 June 2022: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

CORPORATE GOVERNANCE CODE

The Board is committed to practicing and maintaining a high standard of corporate governance for the enhancement of value of shareholders of the Company (the "**Shareholders**") and safeguarding interests of Shareholders and other stakeholders. In the opinion of the Board, the Company has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**") during the six months ended 30 June 2023, except for the following deviation:

Deviation from Code Provision C.1.6 of the CG Code

Code provision C.1.6 of the CG Code stipulates that independent non-executive directors and non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Qu Jinping, the non-executive Director, due to other business engagements, was unable to attend the annual general meeting of the Company held on 21 June 2023. However, the Company considered that the presence of the chairman of each of nomination committee of the Company, Remuneration Committee and Audit Committee, and other Directors at the said meeting, which were sufficient for addressing the queries from the attending Shareholders.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2023 INTERIM REPORT

The interim results announcement of the Company is published on the websites of the Company at http://www.cosmel.com and the Stock Exchange at https://www.hkexnews.hk. The 2023 interim report of the Company will be published on the above websites and despatched to the Shareholders in due course.

By order of the Board
Cosmos Machinery Enterprises Limited
TANG To
Chairman

Hong Kong, 24 August 2023

As at the date of this announcement, the Board is comprised of eight Directors, of which two are executive Directors, namely Mr. Tang To and Mr. Tang Yu, Freeman, two are non-executive Directors, namely Mr. Kan Wai Wah and Mr. Qu Jinping, and four are independent non-executive Directors, namely Ms. Yeung Shuk Fan, Mr. Huang Zhi Wei, Mr. Lam Kwok Ming and Mr. Lee Wai Yip, Alvin.